FISCAL NOTE

Bill #:	SB0242	**Title:**	Revise definition of dependent for medical savings account
Primary Sponsor:	Cocchiarella, V	**Status:**	As Introduced

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0	$0
State Special Revenue		
Federal Special Revenue		
Other		
Revenue:		
General Fund	($37,500)	($75,000)
State Special Revenue		
Federal Special Revenue		
Other		
Net Impact on General Fund Balance:	($37,500)	($75,000)

- ☐ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☐ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, an employer may establish a medical care savings account for a dependent of an employee; or any individual who is a resident of this state may establish a medical care savings account for a dependent of the individual. This bill modifies the definition of "dependent" for purposes of the state medical care savings account to be the same as a "dependent" for individual income tax purposes.
2. Currently, "dependent" for the purpose of medical savings accounts is fairly narrowly defined to include the spouse of the employee or the account holder; or a child of the employee or account holder if the child is: a) under age 19, or b) under age 23 and enrolled as a full-time student at an accredited college or university; and is not otherwise emancipated, self-supporting, married, or a member of the armed forces.
3. Tying the definition of dependent to the definition used for personal exemptions under the individual income tax will greatly expand the number of individuals eligible for the medical savings account. Under

this definition, a dependent would include not only the spouse or child of the employee or account holder, but could also include descendants of the child (grandchildren, e.g.), stepsons and stepdaughters; brothers, sisters, stepbrothers, and stepsisters; father, mother, stepfather, or stepmother; nieces and nephews; aunts and uncles; and others. To qualify, these people must receive over half their support from the employee or account holder, and must not have earned more than $800 during the tax year.

4. Under the proposed definition of dependent, many more individuals will qualify for a medical care savings account, and this will act to increase the number of accounts established significantly.
5. This bill applies retroactively to tax years beginning after December 31, 2004 (tax year 2005 and thereafter).
6. The exemption for medical savings accounts has been growing rapidly since its passage. In tax year 1997 894 taxpayers excluded $1,626,685 from income for contributions to these accounts. In tax year 2003, a total of 5,276 full-year resident taxpayers claimed $11,398,465 of exempt income attributable to contributions to medical savings accounts. The tax year 2003 tax expenditure associated with this exemption was $788,165 (i.e., revenues were reduced a total of $788,165 as a result of the exclusion of $11,398,465 in contributions to medical savings accounts). This amounts to an average tax expenditure of about $150 per taxpayer claiming the exemption.
7. As a result of this bill, in tax year 2005 an additional 250 medical savings accounts will be established for "dependents" that otherwise would not be established under current law; an additional 500 accounts will be in place in tax year 2006; and an additional 750 accounts will be in place in tax year 2007 and subsequent tax years. These accounts will have the same average tax expenditure associated with them as the average tax expenditure associated with all medical savings accounts reported on tax returns in tax year 2003 ($150). All of the revenue impact of the additional accounts occurs in the fiscal year immediately following the tax year (e.g., the fiscal impact of establishing additional medical savings accounts in tax year 2005 occurs fully in FY 2006).
8. Based on the above assumptions, general fund revenues are reduced a total of $37,500 in FY 2006 (250 new accounts X $150 average tax expenditure); and $75,000 in FY 2007 (500 additional accounts X $150 average tax expenditure) under this bill.
9. There are no administrative impacts to the Department of Revenue under this bill.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Revenues:		
General Fund (01)	$(37,500)	$(75,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$(37,500)	$(75,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
None.

LONG-RANGE IMPACTS:
General fund revenues will be reduced an estimated $112,500 in FY 2008 and subsequent fiscal years (750 additional accounts X $150 per account tax expenditure).